

## Declines in the US and China Slow Down Pace of Global Auto Sales Growth

- Global auto sales growth slowed down markedly in July owing mainly to year-on-year sales declines in the US, China, and Canada, as well as a sharp deceleration in vehicle purchases in India and a continued contraction in Mexico.
- With data to August, auto sales in Canada continued their year-on-year drop while they remained flat in the US.
- Sales in Western Europe were boosted by a clear-out of vehicle stocks ahead of new emission testing requirements that kick in on September 1st.

### CANADA: WEAK SALES PERFORMANCE CONTINUES

Auto sales in Canada fell by its sharpest level in nearly two years at 3.6% y/y in July followed by a 1.6 y/y contraction in August, which marked the sixth consecutive month of y/y declines. The auto market downturn stands in contrast to the strength in the Canadian economy which expanded by an annualised rate of 2.9% q/q expanding in the second quarter after a weak start to the year. While the pace of employment growth has slowed in 2018, wages are expanding at a solid pace and the unemployment rate sits at its lowest level in over a decade. The ratio of new vehicle sales to prime-age population is still near record highs at the same time as rising interest rates may be restraining big-ticket purchases by Canadian households. Double-digit y/y increases in fleet purchases prevented bigger declines in July and August with retail sales posting large y/y declines in the summer months. So far in 2018, vehicle sales in Canada have declined by 0.9% y/y compared to the first eight months of 2017, which is in line with expectations of a slight decline in sales in 2018 after record levels last year.

**Ontario**—which accounts for over 40% of vehicle purchases in the country—posted a slight y/y increase in sales in July, while vehicle purchases in **Alberta and BC**—over a fifth of the Canadian auto market combined—fell by over 10% y/y in each province. Data for August is not yet available at the provincial level. The sales contraction in BC is the steepest since 2009 and marks a pointed reversal from 2017 when auto deliveries expanded by 7.1%. Purchases in Alberta show a similar pattern after 11.4% growth last year. The contraction in sales in Alberta follows from a year when auto purchases were driven by a strong economic recovery and vehicle replacement following the Fort McMurray wildfires. In contrast, the contraction in BC mirrors the province's substantial early slowdown in household spending, which anchored its robust 2013–17 expansion averaging 3.6% annually. With employment growth and consumer expenditures this year and next expected to ease from their cycle peaks—and become increasingly constrained by rising borrowing costs and limited housing affordability—we look for BC auto sales to decline in 2018 after last year's 6.9% rise.

### CONTACTS

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Motor Vehicle Sales			
	Jul '18	Jan-Jul '18	Aug '18
	(y/y % change)		
<b>World</b>	0.5	3.8	-
<b>North America</b>			
Canada	-3.6	-0.7	-1.6
US	-3.4	1.3	0.0
Mexico	-6.4	-8.1	-5.3
<b>South America</b>			
Argentina	-35.8	-4.0	-31.9
Brazil	16.8	14.2	14.0
Chile	11.4	22.4	9.5
Colombia	3.4	1.2	-
Peru	-8.1	-1.5	-
<b>Western Europe</b>			
France	18.9	6.3	39.9
Germany	12.3	4.2	24.7
Italy	4.4	-0.8	9.6
Spain	19.3	11.0	48.7
UK	1.2	-5.5	23.1
<b>Eastern Europe</b>			
Russia	10.6	17.0	11.0
Turkey	-32.6	-15.0	-
<b>Asia Pacific</b>			
Australia	-8.4	-0.7	-
China	-3.4	4.3	-
India	1.1	14.0	-
Japan	3.3	-1.1	-
Korea	4.5	0.7	-

Sources: Scotiabank Economics, Wards Auto National Automotive Associations.

## US: MARKET PLATEAUS WITH BACK-TO-BACK DECLINES

Vehicle purchases in the US fell by 3.4% y/y in July, after June's massive gain of 5.3% y/y, and remained relatively flat in August with 16.6 mn units sold in annualised terms, which marks the first occurrence of back-to-back sales under 17 mn annualised units since August 2017. A drawdown of inventories may have dampened down sales after the first half of the year saw a 2% y/y rise compared to the same period in 2017. Dealers' stock of the Ford F-Series truck, the highest selling automobile in the US, have fallen to 70 days' supply as of August 2018 from 83 days' supply twelve months back. Similarly, the Chevy Silverado lost the second highest-selling vehicle spot in August as inventories for the 2019 Silverado model failed to meet demand in addition to a reduction in incentives across GM vehicles, especially on trucks.

## MEXICO: FIFTEENTH CONSECUTIVE DROP

Auto sales fell in y/y terms for a 15th consecutive month in Mexico in August, as the industry faces headwinds of slow growth in real wages and high lending rates. Banco de Mexico's policy rate remains at its highest level since the pre-financial crisis in the face of high consumer-price inflation following a relatively steep depreciation of the peso. Further, uncertainty surrounding the renegotiation of NAFTA and the July presidential elections may have affected consumer confidence. Real earnings have, however, ticked up in y/y terms for six consecutive months to June after thirteen months of back-to-back declines. The US and Mexican teams have reached a tentative agreement on rules of origin on automobiles, which could bring the conclusion of NAFTA closer, and alongside rising wages lift motor vehicle sales in the last third of 2018.

## LATIN AMERICA: SALES REBOUND IN BRAZIL, BUT RISKS LOOM

After a couple of months of lacklustre growth, vehicle sales in Brazil grew by double digits year-on-year in July and August, while economic woes in Argentina continue to heavily depress sales. A truck drivers' strike over high diesel fuel costs in Brazil led to road blockades and a sharp contraction of manufacturing deliveries in late-May through early-June. While consumer confidence has slightly recovered since the end of the protests, political uncertainty remains elevated as Brazilians take to the polls in October 2018 to elect a new president with no clear frontrunner. The economic downturn in Argentina—where sales have contracted by about a third in each of June, July, and August in y/y terms—has also spilled over into a steep reduction in demand for Brazilian-made automobiles. Auto sales in Chile expanded in August by single digits year-on-year for the first time since December 2017, though economic growth in the country remains relatively strong and should continue to support robust gains for the remainder of the year.

### INTERNATIONAL CAR SALES OUTLOOK

(millions of units)

	<u>1990–99</u>	<u>2000–14</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018f</u>
<b>TOTAL SALES</b>	<b>39.20</b>	<b>54.89</b>	<b>72.61</b>	<b>77.25</b>	<b>79.02</b>	<b>81.50</b>
<b>North America*</b>	<b>16.36</b>	<b>17.85</b>	<b>20.64</b>	<b>21.01</b>	<b>20.70</b>	<b>20.60</b>
Canada	1.27	1.62	1.90	1.95	2.04	2.00
United States	14.55	15.24	17.39	17.46	17.13	17.10
Mexico	0.54	0.99	1.35	1.60	1.53	1.50
<b>Western Europe</b>	<b>13.11</b>	<b>13.67</b>	<b>13.20</b>	<b>13.97</b>	<b>14.32</b>	<b>14.60</b>
Germany	3.57	3.23	3.21	3.35	3.44	3.50
<b>Eastern Europe</b>	<b>1.18</b>	<b>3.08</b>	<b>3.15</b>	<b>3.14</b>	<b>3.41</b>	<b>3.65</b>
Russia	0.78	1.87	1.60	1.43	1.60	1.75
<b>Asia</b>	<b>6.91</b>	<b>17.12</b>	<b>32.29</b>	<b>36.06</b>	<b>37.10</b>	<b>38.79</b>
China**	0.43	7.31	20.01	23.57	24.20	24.92
India	0.31	1.23	2.06	2.09	2.19	2.33
<b>South America</b>	<b>1.64</b>	<b>3.17</b>	<b>3.33</b>	<b>3.07</b>	<b>3.49</b>	<b>3.86</b>
Brazil	0.94	1.94	1.82	1.39	1.50	1.68

\*Includes light trucks. \*\*Includes crossover utility vehicles from 2005. Sources: Scotiabank Economics, Ward's Automotive Reports, Bloomberg.

**EUROPE: STEEP INCREASE IN SALES AHEAD OF NEW EMISSION STANDARDS**

**Auto sales in Western Europe surged in July and August as dealers sought to empty their lots of vehicles that will not meet the new EU emission standards set to kick in on September 1st.** Vehicle purchases increased by double digits compared to last August in all major European economies though with softer readings for Italy and the UK—which continue to battle domestic and international troubles—compared to large increases in France, Germany, and Spain. Sales are expected to correct in September as dealer incentives wane.

**ASIA: FIRST DECLINE IN PURCHASES IN CHINA IN OVER TWO YEARS**

**Vehicle sales in China declined in y/y terms in July for the first time since May 2016,** with the exception of the typical slump around the Chinese New Year. Officials at the Chinese Auto Association Manufacturers noted that concerns over escalating trade tensions with the US may affect sales later in the year but the decline in July is likely owing to a disconnect between the products on offer by certain automakers and consumer preferences. Chinese automobile imports heavily contracted in annual terms in June as importers pulled forward imports to avoid the higher tariffs that kicked in that month. On a m/m basis Chinese import volumes of motor vehicles contracted 44% in June. **Vehicle purchases in India also slowed down heavily from June's pace of 38% y/y to 1.1% y/y in July owing to a set of one-off or temporary factors:** a high base in July 2017, a mid-month truckers' strike which restricted vehicle shipments, and planned inventory reductions prior to the introduction of new models. Asian auto sales excluding China—which represents over 60% of our Asian vehicle purchases aggregate—rose by a relatively strong 5.5% y/y in July, compared to a mere 0.3% y/y rise when accounting for the Chinese market.

**CANADA/US MOTOR VEHICLE SALES OUTLOOK**

	<u>1991-05</u> Average	<u>2006-15</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	
					Jan-Jul**	Annual f
(thousands of units, annualized)						
<b>CANADA</b>	<b>1,398</b>	<b>1,668</b>	<b>1,949</b>	<b>2,041</b>	<b>2,029</b>	<b>2,000</b>
Cars	797	776	662	644	596	610
Domestic	583	490	439	438	389	415
Imports	214	286	223	206	207	195
Light Trucks	601	892	1,287	1,397	1,433	1,390
(millions of units, annualized)						
<b>UNITED STATES</b>	<b>15.5</b>	<b>14.4</b>	<b>17.5</b>	<b>17.1</b>	<b>17.1</b>	<b>17.1</b>
Cars	8.3	6.9	6.9	6.1	5.3	5.2
Light Trucks	7.2	7.5	10.6	11.0	11.7	11.9
(millions of units, annualized)						
<b>NORTH AMERICAN PRODUCTION*</b>	<b>15.58</b>	<b>14.63</b>	<b>18.15</b>	<b>17.48</b>	<b>17.04</b>	<b>17.25</b>
CANADA	2.50	2.24	2.37	2.19	2.10	2.05
UNITED STATES	11.67	9.80	12.18	11.23	11.08	11.35
MEXICO	1.41	2.59	3.60	4.06	3.85	3.85

\*Includes light, medium and heavy trucks. \*\*Canadian sales are Scotiabank estimates. Sources: Ward's Automotive Reports, Statistics Canada.

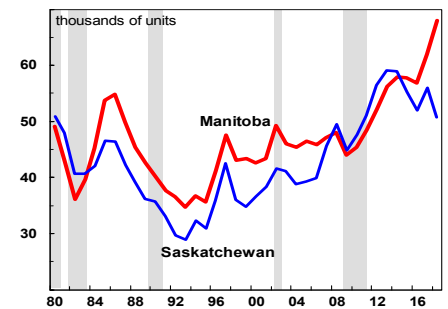
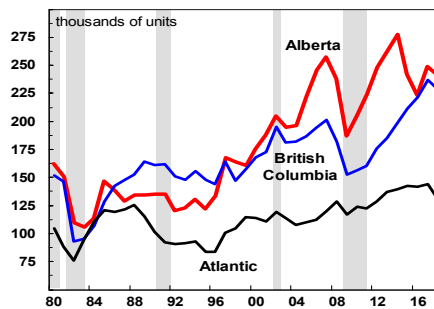
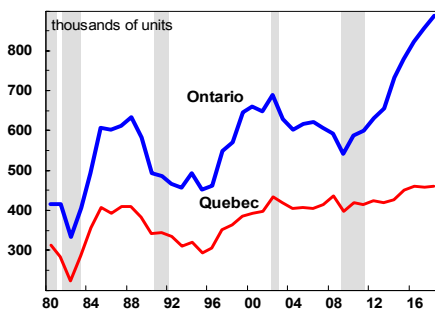
**VEHICLE SALES OUTLOOK BY PROVINCE\***

(thousands of units, annual rates)

	<u>1994-05</u> Average	<u>2006-15</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	
					Jan-Jul**	Annual f
<b>CANADA</b>	<b>1,446</b>	<b>1,668</b>	<b>1,949</b>	<b>2,041</b>	<b>2,045</b>	<b>2,000</b>
<b>ATLANTIC</b>	<b>102</b>	<b>125</b>	<b>140</b>	<b>143</b>	<b>133</b>	<b>138</b>
<b>CENTRAL</b>	<b>936</b>	<b>1,034</b>	<b>1,265</b>	<b>1,300</b>	<b>1,319</b>	<b>1,266</b>
Quebec	366	411	458	453	460	445
Ontario	570	623	807	847	860	821
<b>WEST</b>	<b>408</b>	<b>509</b>	<b>544</b>	<b>598</b>	<b>593</b>	<b>596</b>
Manitoba	42	49	55	62	72	61
Saskatchewan	36	49	51	56	51	56
Alberta	166	232	220	245	237	248
British Columbia	164	179	218	235	225	231

\*Includes cars and light trucks. \*\*Scotiabank estimates. Sources: Statistics Canada, Canadian Vehicle Manufacturers' Association.

**VEHICLE SALES BY PROVINCE**



Includes cars and trucks (light, medium and heavy). Shaded bars indicate U.S. recession periods. Source: Statistics Canada.

**AUTO MARKET SHARE BY MANUFACTURER — CANADA\***

(thousands of units, not seasonally adjusted)

	<u>2017</u>		<u>2018</u>		<u>2017</u>		<u>2018</u>	
	Jan to Aug		Jan to Aug		Aug		Aug	
	Units	% of Total	Units	% of Total	Units	% of Total	Units	% of Total
<b>TOTAL</b>	<b>455.8</b>	<b>100.0</b>	<b>413.4</b>	<b>100.0</b>	<b>59.0</b>	<b>100.0</b>	<b>52.7</b>	<b>100.0</b>
Big Three	89.0	19.5	77.5	18.7	9.0	15.3	7.7	14.5
General Motors	45.6	10.0	43.6	10.6	5.3	8.1	4.8	9.1
Ford	28.5	6.2	24.5	5.9	3.2	5.4	2.4	4.6
Chrysler	14.9	3.3	9.3	2.3	0.6	0.9	0.4	0.8
Japanese	206.1	45.2	193.2	46.7	26.8	45.4	25.7	48.7
Honda	68.2	15.0	66.7	16.1	9.5	16.1	9.3	17.7
Toyota	61.8	13.6	59.3	14.3	8.0	13.6	8.0	15.2
Nissan	33.1	7.3	30.2	7.3	3.5	6.0	3.5	6.6
Mazda	24.2	5.3	22.1	5.3	3.3	5.6	3.1	5.8
Mitsubishi	6.0	1.3	3.6	0.9	0.8	1.4	0.2	0.4
Subaru	12.8	2.8	11.3	2.7	1.6	2.7	1.5	2.8
Hyundai	51.0	11.2	43.2	10.5	7.0	11.9	6.3	11.9
Volkswagen	34.9	7.7	28.8	7.0	5.8	9.9	4.2	7.9
Kia	26.9	5.9	26.4	6.4	4.3	7.3	3.9	7.4
BMW	15.1	3.3	14.0	3.4	2.0	3.4	1.8	3.3
Mercedes-Benz	16.0	3.5	14.3	3.5	1.8	3.1	1.4	2.7
Other	16.9	3.7	16.1	3.9	2.2	3.7	1.9	3.6

\*Source: Dealer sales from the Global Automakers of Canada.

**TRUCK MARKET SHARE BY MANUFACTURER — CANADA\***

(thousands of units, not seasonally adjusted)

	<u>2017</u>		<u>2018</u>		<u>2017</u>		<u>2018</u>	
	Jan to Aug		Jan to Aug		Aug		Aug	
	Units	% of Total	Units	% of Total	Units	% of Total	Units	% of Total
<b>TOTAL</b>	<b>950.5</b>	<b>100.0</b>	<b>940.9</b>	<b>100.0</b>	<b>125.7</b>	<b>100.0</b>	<b>130.4</b>	<b>100.0</b>
Big Three	526.3	55.4	509.3	54.1	66.9	53.2	65.4	50.2
General Motors	159.7	16.8	162.6	17.3	23.7	18.8	21.2	16.3
Ford	186.9	19.7	187.8	20.0	24.1	19.2	26.8	20.6
Chrysler	179.7	18.9	158.9	16.9	19.1	15.2	17.3	13.3
Other Domestic	17.6	1.9	25.0	2.7	2.3	1.9	3.5	2.7
Japanese	285.8	30.1	310.8	33.0	38.8	30.9	41.3	31.6
Honda	68.2	7.2	70.8	7.5	8.8	7.0	9.3	7.1
Toyota	91.4	9.6	95.9	10.2	12.0	9.5	12.4	9.5
Nissan	67.8	7.1	72.4	7.7	9.7	7.7	9.8	7.5
Mazda	25.9	2.7	30.6	3.3	3.8	3.0	4.0	3.1
Mitsubishi	9.5	1.0	14.4	1.5	1.2	1.0	2.2	1.7
Subaru	23.0	2.4	26.6	2.8	3.4	2.7	3.5	2.7
Hyundai	40.6	4.3	45.5	4.8	5.0	4.0	7.0	5.4
Kia	25.0	2.6	26.0	2.8	3.4	2.7	3.5	2.7
Other Imports	55.1	5.8	24.4	2.6	9.3	7.4	9.7	7.4
<b>LIGHT TRUCKS</b>	<b>948.2</b>	<b>99.8</b>	<b>978.4</b>	<b>104.0</b>	<b>124.9</b>	<b>99.4</b>	<b>128.2</b>	<b>98.3</b>

\*Source: Dealer sales from the Global Automakers of Canada.

Note: starting with this issue, the order of the Atlantic provinces has been changed to reflect their geographic position from east to west.

### AUTO SALES BY PROVINCE

(thousands of units, not seasonally adjusted)

	<u>2017</u>	<u>2018</u>	<u>2017</u>	<u>2018</u>
	Jan to Jun	Jan to Jun	Jun	Jun
<b>CANADA</b>	<b>272.4</b>	<b>249.7</b>	<b>66.2</b>	<b>60.8</b>
<b>ATLANTIC</b>	<b>19.0</b>	<b>16.6</b>	<b>4.9</b>	<b>4.4</b>
Newfoundland	3.9	3.4	0.8	0.8
Prince Edward Island	1.2	0.9	0.3	0.3
Nova Scotia	8.4	7.8	2.2	2.1
New Brunswick	5.5	4.5	1.5	1.2
<b>CENTRAL</b>	<b>193.2</b>	<b>178.1</b>	<b>46.6</b>	<b>43.2</b>
Quebec	78.3	71.5	18.7	16.3
Ontario	114.9	106.6	28.0	27.0
<b>WEST</b>	<b>60.2</b>	<b>55.0</b>	<b>14.8</b>	<b>13.2</b>
Manitoba	5.8	6.7	1.4	1.6
Saskatchewan	3.7	3.1	0.9	0.8
Alberta	20.4	17.3	4.8	4.0
British Columbia	30.2	28.0	7.7	6.8

Source: Statistics Canada.

Note: starting with this issue, the order of the Atlantic provinces has been changed to reflect their geographic position from east to west.

### TRUCK SALES BY PROVINCE\*

(thousands of units, not seasonally adjusted)

	<u>2017</u>	<u>2018</u>	<u>2017</u>	<u>2018</u>
	Jan to Jun	Jan to Jun	Jun	Jun
<b>CANADA</b>	<b>577.4</b>	<b>604.8</b>	<b>134.8</b>	<b>143.6</b>
<b>ATLANTIC</b>	<b>39.8</b>	<b>38.2</b>	<b>4.9</b>	<b>9.8</b>
Newfoundland	9.8	9.1	0.8	2.4
Prince Edward Island	2.2	2.1	0.3	0.6
Nova Scotia	15.2	14.5	2.2	3.7
New Brunswick	12.6	12.6	1.5	3.1
<b>CENTRAL</b>	<b>351.6</b>	<b>376.3</b>	<b>85.3</b>	<b>89.3</b>
Quebec	114.9	124.4	27.1	27.2
Ontario	236.8	251.9	58.3	62.1
<b>WEST</b>	<b>185.9</b>	<b>190.2</b>	<b>44.6</b>	<b>44.5</b>
Manitoba	19.1	23.7	4.4	4.5
Saskatchewan	19.2	17.2	4.6	4.2
Alberta	81.6	82.4	19.4	19.6
British Columbia	66.1	67.0	16.3	16.2

\*Light, medium and heavy trucks. Source: Statistics Canada.

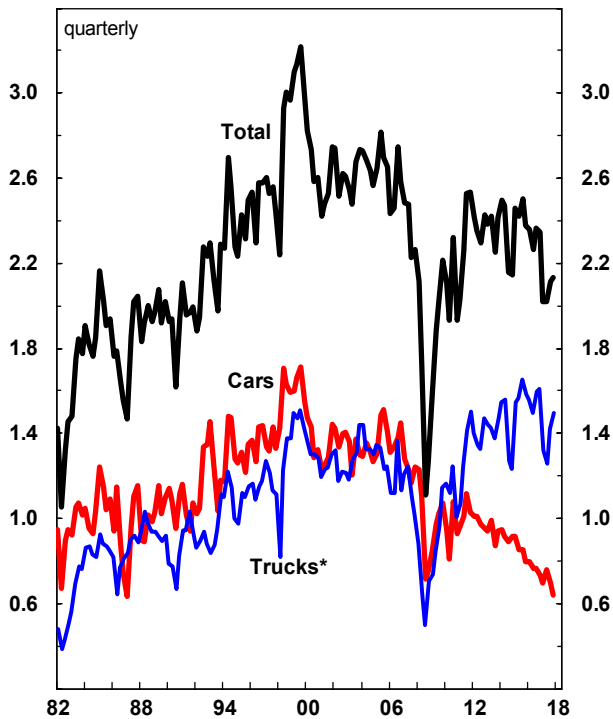
**CANADIAN MOTOR VEHICLE PRODUCTION**

(thousands of units, not seasonally adjusted)

	<u>2017</u>	<u>2018</u>	<u>2017</u>	<u>2018</u>
	Jan to Jul	Jan to Jul	Jul	Jul
<b>TOTAL</b>	<b>1,326.9</b>	<b>1,202.1</b>	<b>113.3</b>	<b>120.8</b>
<b>CAR</b>	<b>430.3</b>	<b>391.1</b>	<b>33.8</b>	<b>35.0</b>
Chrysler	124.0	119.7	9.3	7.2
GM	51.7	32.4	0.4	3.2
Honda	122.3	123.6	13.0	13.1
Toyota	132.3	115.4	11.1	11.5
<b>TRUCKS*</b>	<b>896.6</b>	<b>811.0</b>	<b>79.5</b>	<b>85.7</b>
Chrysler	178.0	181.4	15.3	14.4
Ford	150.0	152.8	12.2	17.6
GM	215.2	142.3	14.6	15.9
Honda	131.3	132.0	13.7	14.7
Toyota	211.6	190.6	22.1	21.3
Others	10.5	11.8	1.6	1.9

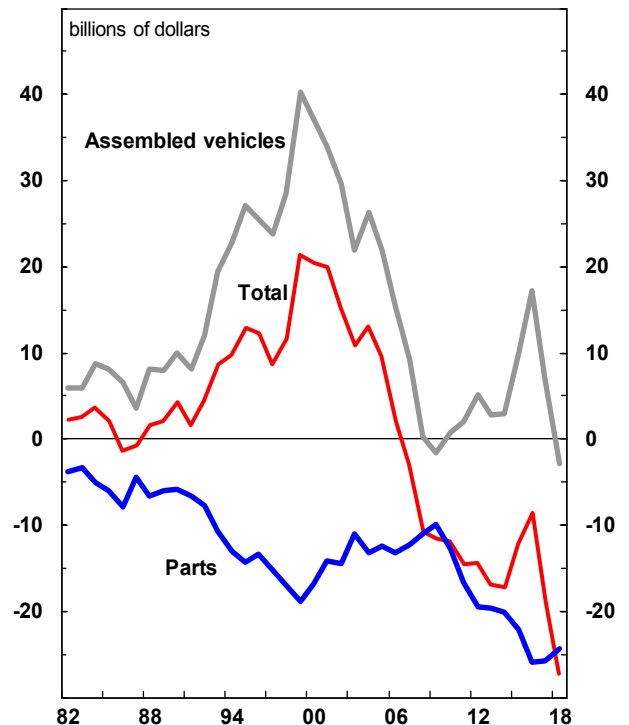
\*Light, medium and heavy trucks. Source: Ward's Automotive Reports.

Canada — Motor Vehicle Production



Millions of units, seasonally adjusted annual rates.  
\*Light, medium and heavy trucks.  
Source: Ward's Automotive Reports.

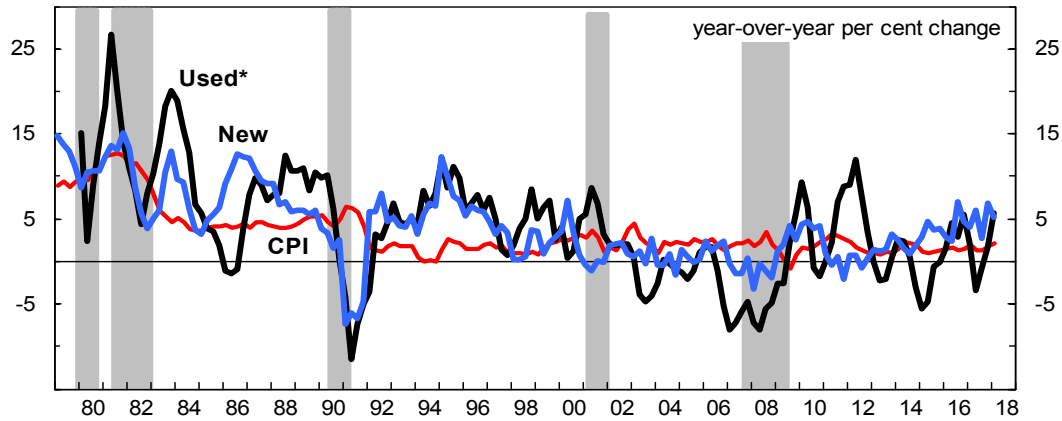
Canada — World Auto Trade Balances



2018 data are January-June annualized.  
Source: Statistics Canada.

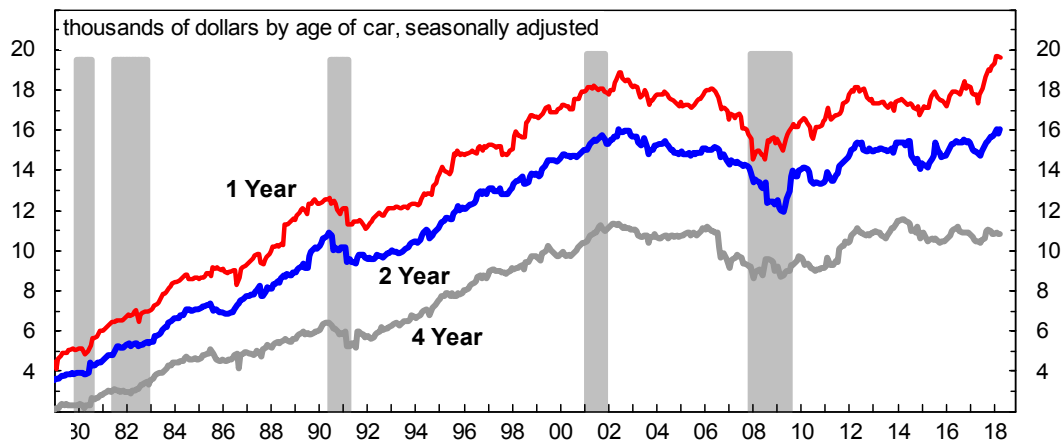
**New & Used Car Prices**

**Scotiabank Car Price Indicators — Canada**



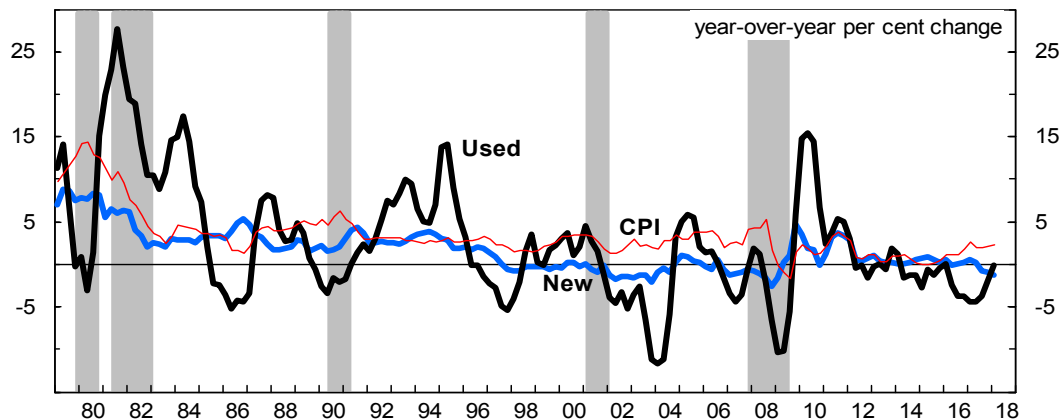
\*Scotiabank estimate from Canadian Black Book data.  
Sources: Canadian Black Book. Statistics Canada.

**Scotiabank Car Price Indicators — Canada**



Scotiabank estimate from Canadian Black Book data.

**Scotiabank Car Price Indicators — United States**



Consumer price indices for new and used cars.  
Shaded areas indicate recession periods. Source: U.S Bureau of Labor Statistics.



**CANADIAN CORPORATE FINANCIAL PERFORMANCE**
**MOTOR VEHICLE DEALERS AND REPAIR SHOPS**

		Net Income After Tax (\$ mil)	Pre-Tax Profit Margin (%)	Inventory Turnover Ratio	Interest Coverage Ratio	Debt/ Equity Ratio	Return on Shareholders Equity (%)
Annual	2005	799	0.93	5.35	2.55	2.74	12.90
	2006	942	1.20	5.16	2.64	2.75	14.37
	2007	1089	1.41	5.05	3.36	2.56	15.13
	2008	1142	1.43	5.04	3.51	2.44	14.66
	2009	1392	1.84	5.34	4.85	2.07	16.99
	2010	1649	2.06	4.91	5.34	2.11	18.09
	2011	1664	1.99	5.17	5.19	2.02	17.44
	2012	1748	1.97	4.86	5.32	2.03	16.71
	2013	2215	2.32	5.08	6.64	2.02	20.08
	2014	2714	2.60	5.09	7.41	1.90	21.03
	2015	2930	2.65	5.19	7.47	1.94	21.06
	2016	2940	2.46	5.06	7.54	1.87	18.84
	2017	3660	2.73	4.89	8.02	1.89	21.39
Quarterly at annual rates	2017Q2	4232	2.51	5.01	9.43	1.94	23.48
	Q3	4204	2.56	5.00	8.54	1.85	22.12
	Q4	3844	2.54	4.92	7.53	1.79	21.16
	2018Q1	2260	2.20	4.69	5.76	1.90	15.94
	Q2	3644	2.25	4.69	6.88	1.88	17.44
	Average (89–17)	1094	1.40	5.96	3.68	2.30	12.63
Low (89–17)	-68	0.10	4.32	1.10	3.57	-1.20	

Definition of Ratios:

Pre-tax Profit Margin: pre-tax income/sales

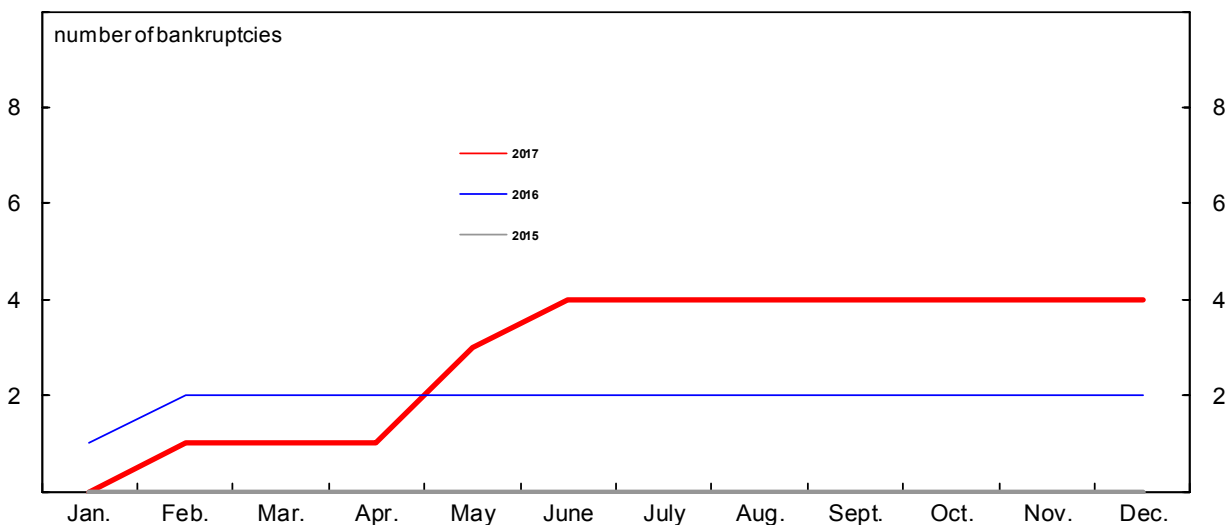
Inventory Turnover Ratio: sales/inventory

Source: Statistics Canada.

Interest Coverage Ratio: (pre-tax income and interest payments)/(interest payments)

Debt/Equity Ratio: (short-term and long-term debt)/total equity

Return of Shareholders' Equity: after-tax income/total equity

**Retail Auto Dealer Bankruptcies**


New car dealers only; cumulative total during the year.

Source: Office of the Superintendent of Bankruptcy.

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